



THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

APR 30 1999

ACQUISITION AND
TECHNOLOGY

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE NAVY
(RESEARCH, DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE
(ACQUISITION)
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Reducing Contract Fund Citations

The Department continues to experience an unacceptable number of contract payment problems. These problems are caused by a number of factors including systems deficiencies and contract structure. While we are working hard to automate manual processes and upgrade our payment and accounting systems, it appears little progress is being made in simplifying contract structure.

Payment backlogs occur when the contract funding citations on payment documents, represented by Accounting Classification Reference Numbers (ACRNs), cannot be matched to the accounting records during the prevalidation process. The complexity of the process and the likelihood of a mismatch increase as the number of funding citations increases on a contract. In recognition of this problem, the Under Secretary of Defense (Comptroller) and I signed the attached joint memorandum directing that contract funding citations be held to a minimum. The attached DoDIG review reveals that little progress has been made in implementing this direction.

The Department has committed to prevalidation of all payments by July 2000. As the dollar threshold for prevalidation is reduced, it is vitally important that we reduce the number of ACRNs on contracts. Only funding citations meeting one of the requirements outlined in the joint memorandum should be included in contracts. Additional funding information that does not meet one of these requirements must be collected outside the contract payment process--with a contract data requirement, for example.

ATTACHMENT 1



I must reemphasize the importance of this initiative and ask for your personal support of the direction contained in the joint memorandum. I request that each of you review your agency's progress in reducing contract funds citations, work with the Financial Management community in your department or agency to develop a joint plan of action for addressing this matter, and provide me with a status report on your efforts not later than July 30, 1999.


Dave Oliver

Attachments:

1. USD(A&T)/USD(C) memo dtd May 8, 1998
2. DoDIG memo dtd February 17, 1999



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

February 17, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION
AND TECHNOLOGY)
UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Status of Efforts to Reduce Contract Fund Citations

On May 8, 1998, you cosigned a memorandum that enjoined the acquisition and financial management communities to hold the number of contract fund citations to a minimum. This office strongly supported the guidance and requirements that you prescribed, because we believe that overly complex contracts and accounting requirements contribute to many DoD management problems.

Recently we surveyed the recipients of the May 8, 1998 guidance to find out how much compliance action was being taken. The feedback was less than encouraging, as indicated in the attached data. We recognize that some subordinate level organizations may be taking proactive actions despite the lack of any strong advocacy from senior levels of their components. However, past experience and the tenor of the responses to our inquiry lead us to doubt that the May 8, 1998 memorandum is being taken seriously by most DoD components.

If this initiative is to result in any progress, we urge that you pursue the matter further with the senior leadership of the Military Departments and the appropriate Defense agencies. If my office could be of further assistance, please advise.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Attachment

TAB C

ATTACHMENT 2

4/14/99
update

RESPONSES TO JAN 6 INQUIRY ON REDUCTION OF CONTRACT FUND CITATIONS

AGENCY	ACTION	TIMELY	COMMENTS
ARMY	Forwarded 5/8 memo via electronic Procurement Policy Alert Bulletin	Yes 6/12	Have not processed any exceptions for additional fund cites
NAVY	Forwarded 5/8 memo	No 11/3	
AF	None		AFMC test program aimed at streamlining acct structure
DLA	Forwarded 5/8 memo	Yes 9/15	Multiple cites rare, and then usually fall under one of the exceptions
BMDO	Reviewing procurement actions		Seemed like they hadn't gotten the 5/8 memo; most funds executed by Services
DARPA	E-mailed paraphrased version of 5/8 memo	Yes 6/19	e-mail asked for immediate implementation
DeCA	None on 5/8 memo		Most contracts have 1 cite
DIA	Policy implementation expected 3/99	No	
DISA	None		Also seemed like they never got the 5/8 memo; they didn't think it added anything to existing guidance
DoDEA	For credit card, Fed Ex and GSA, only one line used	Yes FY98	FY98 review showed most contracts had only one line
DSCA	None		Outside the span of their control for most funds
DTRA	Policy implementation expected 6/99	No	New entity; created 10/1
NIMA	Forwarded 5/8 memo	No 2/5	
NSA	None on 5/8 memo		Using other initiatives to reduce cites, including credit card use
NRO	None on 5/8 memo		Follow AF guidance

No response was received from DFAS.



OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON, DC 20301



May 8, 1998

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (RESEARCH,
DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE NAVY (RESEARCH,
DEVELOPMENT AND ACQUISITION)
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (ACQUISITION)
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Reducing Contract Fund Citations

The acquisition and financial management communities have worked together in recent years to improve the integrity of the financial management process. A major goal of that effort has been to reduce unmatched disbursements and improve the timeliness and accuracy of contract payments. Additional progress is possible if we can hold the number of contract fund citations to a minimum. Reducing the number of fund citations will result in simpler contracts, fewer opportunities for unmatched disbursements, and less payment prevalidation effort.

In order to hold the number of contract fund citations to a minimum, the establishment of separate contract fund citations within the same congressional funding line shall be limited to situations where it is needed to comply with one of the following requirements:

- Congressionally mandated reporting requirements contained in regulation or congressional committee reports.
- Information specifically required in the "DoD Financial Management Regulation."
- Information specifically required in Program Objective Memoranda or budget guidance signed by the Under Secretary of Defense (Comptroller) (USD(C)), the Principal Deputy Under Secretary of Defense (Comptroller), or the Director, Program Analysis and Evaluation.



TAB B

ATTACHMENT 3

- Information identified in writing by the USD(C) as necessary to prepare the Department's annual audited financial statements.
- Information required by the Office of Management and Budget, Department of Treasury, or other Federal Agency when the requirement is contained in a signed policy directive issued by the applicable agency.

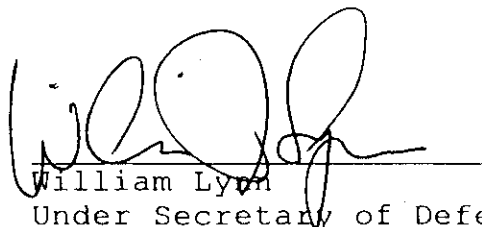
Exceptions for additional separate contract fund citations within the same congressional funding line may be made with the prior written approval of the applicable Assistant Secretary of a Military Department (Financial Management and Comptroller) and Service Acquisition Executive. Written approvals for Defense Agencies may be granted by the Director of a Defense Agency and the Director, Defense Procurement, Office of the Under Secretary of Defense (Acquisition and Technology). This authority shall not be further delegated.

Additionally, we request that the acquisition and financial management communities within each Military Department and Agency work together to examine their financial data needs to determine whether the information being collected is essential, and if so, whether it already is available or otherwise attainable without the need for a separate subdivision of funds within a contract. We note with satisfaction steps taken along these lines by the Commander, Naval Air Systems Command (NAVAIR) and NAVAIR Program Executive Officers in their memorandum of August 19, 1996, which we are providing for your information, and by the Deputy Commander/Comptroller of the Naval Sea Systems Command.

These requirements are effective for contracts entered into on or after October 1, 1998. The point of contact in the Financial Management/Comptroller community is Mr. Nelson Teye, Deputy Chief Financial Officer, (703) 697-0503, and in the Acquisition community is Mrs. Eleanor Spector, Director of Defense Procurement, (703) 695-7145.



Jacques Gansler
Under Secretary of Defense
(Acquisition & Technology)



William Lynn
Under Secretary of Defense
(Comptroller)

Attachment



DEPARTMENT OF THE NAVY
NAVAL AIR SYSTEMS COMMAND
NAVAL AIR SYSTEMS COMMAND HEADQUARTERS
1421 JEFFERSON DAVIS HWY
ARLINGTON VA 22243

IN REPLY REFER TO

3100
Ser AIR-2.2/CLI
19 Aug 96

JOINT LETTER

From: Commander, Naval Air Systems Command
Program Executive Officer for Tactical Aircraft Programs
Program Executive Officer for Air ASW, Assault and Special
Mission Programs
Program Executive Officer for Cruise Missiles and Joint
Unmanned Aerial Vehicles

Subj: REDUCTION OF LINES OF ACCOUNTING AND CONTRACT LINE
ITEMS IN TEAM CONTRACTS

Ref: (a) DFARS 204.7107
(b) DFARS 204.7103 and 204.7104

1. We are committed to changing business practices that contribute to problem disbursements on TEAM contracts. Many initiatives are under way by the TEAM, Defense Finance and Accounting Services (DFAS) and Defense Contract Management Command to resolve this difficult issue. As the paying agent for TEAM contracts, DFAS believes that the complexity of our contracts contributes to problem disbursements. To remove contract complexity as a possible contributor to problem disbursements, effective immediately, all TEAM program managers, contracting officers and business and financial managers shall minimize the lines of accounting, Accounting Classification Reference Numbers (ACRNs), and Contract Line Item Numbers (CLINs) on TEAM contracts. This policy applies to new contracts, modifications to contracts for new procurement, and direct cite funding documents that will result in contracts.

2. Reference (a) requires a unique ACRN for every unique line of accounting on a contract. A contract shall not cite more than one line of accounting when the fiscal year, appropriation, subhead and project unit are the same. Each Requiring Financial Manager (RFM) shall manage all other financial information for internal budget execution purposes. Effective 01 October 1996, approved deviations will be required prior to issuance of financial accounting data sheets for procurements that deviate from this policy. The cognizant Assistant Program Executive Officer (Contracts) must approve each deviation to this policy. Exceptions to this policy include external customer funds such as Shipbuilding & Conversion Navy (SCN), Foreign Military Sales (FMS), Defense Business Operating Funds (DBOF), and other non-NAVAIR funds. Consulting Services (also known as Contracted Advisory and Assistance Services (CAAS) as defined in FAR 37.2) are also exempt from this policy due to statutory tracking requirements. Nevertheless, the TEAM shall make every effort

ATTACHMENT

Subj: REDUCTION OF LINES OF ACCOUNTING AND CONTRACT LINE
ITEMS IN TEAM CONTRACTS

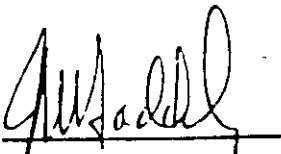
to reduce the use of unique lines of accounting. FMS case managers shall make every effort to develop and implement Letters of Offer and Acceptance in order to reduce lines of accounting.

3. Also, the TEAM must minimize the use of CLINs and Subline Item Numbers (SLINs) with individual prices. Generally, priced CLINs/SLINs shall equal the number of ACRNs, unless the requirements of reference (b) and sound business practices dictate otherwise. Each procurement planning conference shall discuss and include in the planning agreement the CLIN/SLIN and ACRN structure.


4. Another initiative to reduce lines of accounting and priced CLINs/SLINs on TEAM contracts is to limit the use of internal project directives (PDs) which pass funding authority from RFMs to participating managers (PARMs). Further analysis will be conducted on the exceptions to the above policy with the potential result of further restricting or completely eliminating internal PDs.

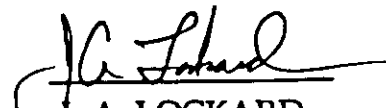
5. This policy is effective through 30 September 1999.

6. Implementation guidance for this policy, to include training, will be provided in the near future. The point of contact for accounting issues resulting from this policy is AIR-7.6.2, Mr. Gilbert Beckner at (703)604-2288, extension 4332. The point of contact for contracting issues resulting from this policy is AIR-2.1.1, Ms. Kathy Young at (703)604-2005, extension 6126.


J.W. HADDOCK
PEO(A) (Acting)


J. A. COOK
PEO(T)


B. A. STRONG
PEO(CU)


J. A. LOCKARD
COMMANDER

Distribution:
(See page 3)